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PENSION FACTS

AMERICAN COUNCIL OF LIFE INSURANCE

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FOREWORD

Pension Facts is an annual publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

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MAJOR PENSION AND RETIREMENT PROGRAMS IN THE U.S.

Nearly one-half of all workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be over 51 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between those eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits which generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered until they actually begin receiving benefits.

In addition, like life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are pension plans established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, and nonprofit religious, educational and charitable institutions.

The two major types of retirement plans in the U.S. are defined contribution and defined benefit plans. Defined contribution plans provide benefits based solely on the amount contributed to the participant's account including any income, expenses, gains or losses or any forfeitures. Defined contribution plan benefits may be paid as a lump-sum distribution or as an annuity. Under defined benefit plans, the benefits are determined by a formula and are funded by contributions established actuarially on the basis of the benefits so determined.

Shortly after the Employee Retirement Income Security Act of 1974 (ERISA) became effective, many small defined benefit plans

TABLE 1
NUMBER OF PERSONS COVERED BY MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees[1]	State and Local Employees	OASDI[2]
1930	100	2,700	1,400	432	800	—
1935	285	2,525	950	483	1,000	—
1940	695	3,565	1,349	745	1,552	27,622
1945	1,470	5,240	1,846	2,928	2,008	40,488
1950	2,755	7,500	1,881	1,873	2,894	44,477
1955	4,105	12,290	1,876	2,333	3,927	64,161
1960	5,475	17,540	1,654	2,707	5,160	73,845
1961	5,635	18,440	1,662	2,655	5,309	76,295
1962	5,770	19,370	1,643	2,943	5,654	78,953
1963	6,060	19,990	1,664	2,985	5,940	81,035
1964	6,710	20,350	1,650	3,069	6,330	83,400
1965	7,040	21,060	1,661	3,114	6,780	87,267
1966	7,835	21,710	1,666	3,322	7,210	91,768
1967	8,700	22,330	1,641	3,499	7,594	93,607
1968	9,155	22,910	1,625	3,565	8,012	95,862
1969	9,920	24,410	1,620	3,627	8,303	98,012
1970	10,580	25,520	1,633	3,625	8,591	98,935
1971	10,880	26,580	1,578	3,596	9,079	100,392
1972	11,545	27,400	1,575	3,737	9,563	103,976
1973	12,485	28,700	1,582	4,030	10,050	108,268
1974	13,335	29,240	1,588	4,057	10,835	108,854
1975	15,190	30,300[3]	1,564	4,138	11,230[3]	110,085
1976	16,965	NA	1,572	4,210	12,000	113,724
1977	18,205	NA	1,567	4,292	12,500	117,483
1978	21,615	NA	1,580	4,380	13,540[3]	121,387

NOTE 1. It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series. In addition, private plans with life insurance companies include persons covered by H.R. 10 plans, tax-sheltered annuities and, after 1974, IRA plans, but other private plans do not include persons covered by these plans.

NOTE 2. These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include dependents of retired workers and survivors of deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces, and provisions for veterans' pensions, are not included. Persons covered by private plans and many persons covered by government-administered plans are also usually covered by Social Security. Data for "Other Private Plans", compiled by the Social Security Administration, excludes the self-employed, and those having vested benefits but not presently employed at the firm where benefits were accrued.

covered by the Pension Benefit Guaranty Corporation's (PBGC) plan termination insurance program terminated. This figure peaked in 1976 to 7,949 terminations and began decreasing early in 1977 to a low of 4,872 terminations in 1978. Government studies indicate that the plans were terminated because of ERISA's increased paperwork and cost burdens and other reasons such as adverse economic conditions. Table 2 includes data on corporate employee benefit plans that terminated since the enactment of ERISA.

TABLE 2
POST-ERISA PLAN TERMINATIONS COVERED BY PBGC INSURANCE

Calendar Year	Number of Terminations
1974 (July-Dec.)	644
1975	5,029
1976	7,949
1977	6,437
1978	4,872

SOURCE: Pension Benefit Guaranty Corporation.

Government-administered Plans

Government-administered plans, including those for Federal civilian employees, state and local government employees, and railroad workers, covered an estimated 19.5 million persons at year-end 1978. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

Tables 1 and 3 show the assets and reserves and the number of persons covered by the major U.S. public and private sector retirement programs.

NA = Not Available. Due to changes in reporting requirements, data for 1976 to 1978 are not yet available. They will be reported in subsequent editions *Pension Facts* when they become available from the U.S. Department of Labor.

[1]Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plan.

[2]Includes persons employed with coverage in effect at year-end including the self-employed, workers retired for age or disability, dependents of retired workers and survivors of deceased workers, who are receiving periodic benefits.

[3]Estimated.

SOURCE: Compiled by American Council of Life Insurance.

TABLE 3
ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES
(Book Values)

(000,000 Omitted)

	Private Plans			Government-Administered Plans			
Year	With Life Insurance Companies	Other Private Plans	Total	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	$ 5,600	$ 6,452	$ 12,052	$2,553	$ 4,343	$ 5,154	$13,721
1960	18,850	33,138	51,988	3,740	10,790	19,600	22,613
1965	27,325	59,185	86,510	3,946	16,516	33,100	19,841
1966	29,425	66,170	95,595	4,074	17,619	36,900	22,308
1967	32,000	74,240	106,240	4,236	18,799	41,500	26,250
1968	34,975	83,072	118,047	4,245	20,224	46,300	28,729
1969	37,900	90,579	128,479	4,347	21,600	51,800	34,182
1970	41,175	97,011	138,186	4,398	23,922	58,200	38,068
1971	46,400	106,419	152,819	4,300	26,532	64,800	40,434
1972	52,300	117,530	169,830	4,100	29,978	73,400	42,775
1973	56,085	126,531	182,616	3,800	32,283	82,700	44,414
1974	60,810	133,731	194,541	3,600	35,366	92,400	45,886
1975	72,210	145,166	217,376	3,100	39,248	103,700	44,342
1976	88,990	160,414	249,404	3,065	44,089	117,300	41,133
1977	101,520	181,509	283,029	2,584	50,832	130,800	35,861
1978	119,110	202,237	321,347	2,787	57,677	142,573	31,746

NOTE: Some data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plan.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Health and Supplementary Medical Insurance is not included.

SOURCES: Railroad Retirement Board; Social Security Administration, U.S. Department of Health, Education and Welfare; Securities and Exchange Commission; other administrative agencies and the American Council of Life Insurance.

The most comprehensive government retirement program is the Federal Old-Age, Survivors, and Disability Insurance (OASDI) system, also known as Social Security, a national old-age social insurance program created in 1935. Some 156 million persons had Social Security earnings credits at the end of 1978. As of that date, over 128 million of those workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die at that time, the full range of survivor benefits would be available, or if they were then aged 62, they would qualify for retirement benefits).

Actuarily-funded retirement systems for civilian employees of the United States government cover some 4.4 million persons.

The Railroad Retirement System, the only retirement system administered by the Federal government for a single private industry, covered 1.6 million persons at year-end 1978.

State and local government retirement systems covered about 13.5 million persons at the end of 1978.

The Uniformed Services Retirement System for members of the Armed Forces, other than their coverage under Social Security, and provisions for veterans' pensions are not dealt with in this publication. Many factors set these apart from other pension plans; for instance, military pension benefits are paid by appropriations from Congress. Federal civilian employees' plans that are not funded on an actuarial basis are also excluded.

INSURED PENSION PLANS

The number of Americans covered by private pension plans administered by U.S. legal reserve life insurance companies totaled 21.6 million at year-end 1978, an increase of 2.4 million over 1977. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached $119 billion at year-end 1978, an increase of 17.3% over year-end 1977 and nearly three and one-half times greater than 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers, where desirable, can participate in the investment and actuarial experience of the particular contract.

Group Pension Plans

The majority of people covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of the deposit administration type, with participation in actuarial, investment or administrative gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the plan. Normally, a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and *profit-sharing plans* are often used by smaller firms. Close to 2.0 million persons were covered by such plans at year-end 1978. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide for an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) plans. Available for more than 15 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees.

At year-end 1978, H.R. 10 plans with life insurance companies covered 465,000 persons, including 10,000 individuals receiving benefits. Assets of these plans were nearly $2.1 billion.

Individual Retirement Accounts (IRAs). These are designed for self-employed individuals, persons who do not qualify for a retirement plan at their place of employment, or persons employed for an organization that does not offer a retirement plan. The Appendix beginning on page 67 summarizes the provisions of ERISA and later amendments governing these accounts. At year-end 1978, there were 960,000 individuals who had established IRAs with life insurance companies. Most plans were not yet paying benefits, and reserves totaled $1.9 billion.

Table 5 illustrates the dollar amounts held, by institution, for individual retirement accounts (IRAs) and H.R. 10 plans at year-end 1978.

The Internal Revenue Service's analysis of 1977 individual income tax returns shows that some 1,950,542 returns claimed contributions to Individual Retirement Accounts, and the total amount contributed was over $2.4 billion. More than $1.8 billion in H.R. 10 contributions were reported on 574,712 returns.

TABLE 5
OUTSTANDING AMOUNTS OF IRA'S AND KEOGH PLANS WITH SELECTED FINANCIAL INSTITUTIONS, YEAR-END

(000,000 Omitted)

	IRA Accounts		Keogh Plans		Total		Percent of Total	
Institution	1977	1978	1977	1978	1977	1978	1977	1978
Life Insurance Companies	$1,875	$1,872	$1,950	$2,041	$ 3,825	$ 3,913	28.0%	21.3%
Mutual Funds	178	293	1,917	2,162	2,095	2,455	15.3	13.3
U.S. Treasury Retirement	33	39	146	160	179	199	1.3	1.1
Commercial Banks*	NA	NA	NA	NA	2,084	3,360	15.2	18.3
Mutual Savings Banks	963	1,449	578	786	1,541	2,235	11.3	12.1
Savings & Loan Associations	2,652	4,330**	1,294	1,910**	3,946	6,240**	28.9	33.9
Total	NA	NA	NA	NA	$13,670	$18,402	100.0%	100.0%

NA = Not Available.

*Includes only IRA and Keogh Plan time deposits with original maturities of three years or more.

**Estimated.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks and Federal Home Loan Bank Board.

The Revenue Act of 1978 liberalized and simplified tax rules for IRAs and Keoghs, including an increase in the IRA contribution limit for employee IRAs (see Appendix). The deadline for establishing and making contributions to Keogh and IRA plans was extended, penalties for overcontributing to plans were eased, as were rollover provisions.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered $6.5 million in the assets of tax-sheltered annuities in 1978. These plans covered 1.4 million persons, including 30,000 annuitants in 1978.

Funding Options

There are a variety of ways that pension plans can be funded. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, and variable rate of interest and benefit

payments. In the latter type, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts (see page 18). In 1978, there were 49,860 group pension funds providing variable annuity payouts according to an equity fund index (Table 6). Other indices were used in 10 group variable annuity plans with indices relating to such bases as changes in the cost of living.

Yet another way of describing annuities is by the conditions specified for paying benefits: the number of lives covered (individual, joint and survivor, and joint life); disposition of the proceeds (life annuity, life annuity with a period certain, temporary, etc.); and the date the benefits begin (immediate, deferred).

"The Language of Pensions" section, which begins on page 55, includes many of these definitions.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the

TABLE 6
VARIABLE ANNUITY PLANS IN THE UNITED STATES, 1978

(Dollar Amounts in Thousands)

	Group Plans			Individual	Total
	Equity Fund Index	Other Indices	Total Group	Plans (Equity Fund Index)	(Group and Individual)
IN FORCE YEAR-END 1978					
No. of Plans	49,860	10	49,870	—	—
No. of Persons	1,309,550	71,630	1,381,180	687,460	2,068,640
Reserves					
Variable	$2,970,680	$331,970	$3,302,650	$1,619,210	$ 4,921,860
Other	4,515,100	197,550	4,712,650	1,500,640	6,213,290
Total	$7,485,780	$529,520	$8,015,300	$3,119,850	$11,135,150
CONSIDERATIONS IN 1978					
Variable	$ 142,250	$ 17,540	$ 159,790	$ 231,270	$ 391,060
Other	867,050	23,970	891,020	341,830	1,232,850
Total	$1,009,300	$ 41,510	$1,050,810	$ 573,100	$1,623,910
VARIABLE ANNUITIES IN COURSE OF PAYMENT—1978					
No. of Persons Receiving Payments Year-End 1978	17,080	9,070	26,150	8,270	34,420
Annualized Income					
Variable	$ 17,880	$ 20,410	$ 38,290	$ 4,290	$ 42,580
Fixed	146,790	21,230	168,020	6,100	174,120
Total	$ 164,670	$ 41,640	$ 206,310	$ 10,390	$ 216,700

NOTE: The table includes variable and fixed data on plans which provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans which provide an option for a variable annuity payout at retirement are not included. For 1978 there were 300 such groups covering 94,400 persons and 3,750 individual plans. Previous years' data are being revised.

SOURCE: American Council of Life Insurance.

company. Maturities generally range from five to 20 years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans that are interested in minimizing investment risk.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of the restrictions in state laws on the amount of assets that life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are not subject to the same investment limitations as the companies' general accounts. Life insurance companies can invest up to 100% of separate account assets in common stocks, while the general accounts are limited to holding only a small fraction of assets in common stock. By year-end 1978, 123 U.S. life insurance companies had established separate accounts.

In 1978, $19.3 billion of pension assets were held in separate accounts, about 16% of total pension assets. Separate account assets at year-end 1978 were almost entirely pension assets.

TABLE 7
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS

	December 31, 1977				December 31, 1978			
Separate Accounts Used Solely for:	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Group Pension Contracts	70	294	12,323	$14,364	68	306	20,280	$17,149
Individual Variable Annuity Contracts	31	75	394,274	980	33	80	394,895	1,118
Individual Variable Life Insurance	3	3	10,299	3	2	2	8,057	4
Mixed Purposes	29	55	336,280	1,376	25	54	543,414	1,420
Total	98	427	753,176	$16,723	93	442	966,646	$19,691

NOTE: Data represent 97% of total life insurance company separate account assets as of December 31, 1978.

SOURCE: American Council of Life Insurance.

A survey of separate account assets at year-end 1978 (Tables 7 and 8), representing 93 companies and 97% of total separate account assets, showed that 87% of the assets in these separate accounts were used solely for group pension contracts. Further, 60% of these group pension contract assets were invested solely or primarily in common stocks.

TABLE 8
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS USED SOLELY FOR GROUP PENSION CONTRACTS

	December 31, 1977			December 31, 1978		
Invested Primarily in:	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Common stocks	166	9,213	$ 9,378	171	13,064	$10,295
Publicly traded bonds	30	555	707	32	604	895
Private placement debt	7	222	731	10	348	1,081
Real property	6	246	1,026	5	155	1,067
Real estate mortgages	1	3	5	2	53	23
Short term investments	8	455	379	14	520	728
Other	22	1,417	702	31	5,470	1,467
Total	240	12,111	12,928	265	20,214	15,556
Mixed portfolio, common stocks and publicly traded bonds	45	357	1,178	34	241	899
Publicly traded bonds and private placement debt	1	2	2	2	3	7
Real property and real estate mortgages	2	46	101	3	156	531
Other	6	29	155	2	3	156
Total	54	434	1,436	41	403	1,593
GRAND TOTAL	294	12,545*	$14,364	306	20,617*	$17,149

NOTE: Data represent 97% of total life insurance company separate account assets as of December 31, 1978.

*Totals differ from those shown in the table above due to contracts participating in more than one account.

SOURCE: American Council of Life Insurance.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those administered by life insurance companies represent the oldest type of industrial retirement planning in the U.S. Assets amounted to $202.2 billion at the end of 1978.

Private retirement plans in this category are generally trusteed pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trusteed plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, pattern type plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

TABLE 4
PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES IN FORCE AT YEAR-END

Year and Type of Plan	Number of Plans	Number of Persons (in thousands)			Payments into Plans in Year[1] (in millions)	Benefits Paid in Year (in millions)	Reserves (in millions)	
		Not Yet Receiving Pensions	Receiving Pensions	Total			Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	$ 640	NA	$ 4,125	—
Deposit Administration Group Annuity[2]	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other[3]	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	935	$ 80	5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	845	NA	7,925	—
Deposit Administration Group Annuity[2]	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other[3]	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	1,425	180	11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	695	NA	11,675	—
Deposit Administration Group Annuity[2]	3,120	NA	NA	1,835	415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	315	NA	2,175	—
Other[3]	3,170	NA	NA	440	190	NA	1,625	—
Total	32,340	4,935	540	5,475	1,615	390	18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	850	NA	14,225	NA
Deposit Administration Group Annuity[2]	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other[3]	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	2,395	720	27,350	$ 260
1970								
Deferred Group Annuity	10,280	1,437	518	1,955	725	444	12,800	NA
Deposit Administration Group Annuity[2]	15,020	5,577	548	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	101	3,350	NA
Other[3]	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,354	1,226	10,580	3,895	1,330	41,175	4,900

1975								
Group Annuities[4]	54,090	9,105	1,440	10,545	7,260	2,160	55,180	10,900
Terminal Funded Group Plans	3,250	60	85	145	340	110	1,950	60
Individual Policy Pension Trusts[5]	176,410	1,860	100	1,960	1,075	140	5,550	440
H.R. 10 (Keogh) Plans	NA	440	10	450	345	10	1,300	150
Tax-Sheltered Annuities	NA	915	20	935	750	35	3,150	790
Individual Retirement Accounts	NA	435	*	435	315	**	330	40
Other[3]	NA	660	60	720	650	65	4,750	140
Total	—	13,475	1,715	15,190	10,735	2,520	72,210	12,520
1977								
Group Annuities[4]	64,320	12,035	1,770	13,805	9,850	2,620	77,595	14,140
Terminal Funded Group Plans	3,970	75	95	170	435	175	2,800	60
Individual Policy Pension Trusts[5]	190,040	1,750	105	1,855	1,205	145	6,225	640
HR. 10 (Keogh) Plans	NA	455	10	465	425	25	1,960	220
Tax-Sheltered Annuities	NA	1,205	30	1,235	1,060	55	5,255	1,110
Individual Retirement Accounts	NA	895	*	895	650	5	1,345	70
Other[3]	NA	710	70	780	915	80	6,340	230
Total	—	17,125	2,080	19,205	14,560	3,105	101,520	16,460
1978								
Group Annuities[4]	76,700	13,700	1,965	15,665	10,960	3,550	91,245	16,920
Terminal Funded Group Plans	4,20	80	120	200	500	200	3,375	60
Individual Policy Pension Trusts[5]	191,740	1,830	125	1,955	1,245	145	6,480	650
H.R. 10 (Keogh) Plans	NA	455	10	465	380	25	2,040	230
Tax-Sheltered Annuities	NA	1,370	30	1,400	1,300	55	6,485	1,160
Individual Retirement Accounts	NA	955	5	960	585	10	1,870	80
Other[3]	NA	885	85	970	1,120	95	7,615	240
Total	—	19,275	2,340	21,615	16,090	4,100	119,110	19,340

NOTE: Some data are revised.
NA = Not Available.
*Fewer than 2,500.
**Less than $2,500,000.
[1]"Payments into Plans in Year" are incurred premiums after deducting withdrawal credits.
[2]Includes Immediate Participation Guarantee.
[3]Includes data on H.R. 10 plans and tax-sheltered annuities through 1972 and individual annuity plans, certain profit-sharing plans and miscellaneous plans not readily available.
[4]Includes Immediate Participation Guarantee and Deposit Administration plans.
[5]Includes Group Permanent plans and profit-sharing trusts.
SOURCE: American Council of Life Insurance.

TABLE 9
PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH LIFE INSURANCE COMPANIES

(in Millions)

Calendar Year	Number of Persons			Contributions in Year*			Benefits Paid in Year**	Assets
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total		
1930	NA	NA	2.70	NA	NA	NA	NA	$ 700
1935	NA	NA	2.53	NA	NA	NA	NA	950
1940	3.44	.13	3.57	NA	NA	NA	NA	1,400
1945	4.99	.25	5.24	NA	NA	NA	NA	2,850
1950	7.20	.30	7.50	$ 1,030	$ 130	$ 1,160	$ 290	6,452
1955	11.60	.69	12.29	2,180	280	2,460	670	16,141
1960	16.30	1.24	17.54	3,520	480	4,000	1,330	33,138
1965	19.10	1.96	21.06	5,600	670	6,270	2,800	59,185
1970	22.00	3.52	25.52	9,720	1,070	10,790	6,030	97,011
1971	22.70	3.88	26.58	11,320	1,120	12,440	7,080	106,419
1972	23.20	4.20	27.40	12,740	1,200	13,940	8,300	117,530
1973	24.10	4.60	28.70	14,370	1,270	15,640	9,310	126,531
1974	24.40	4.84	29.24	16,970	1,460	18,430	10,740	133,731
1975	24.90[3]	5.40	30.30[3]	19,830	1,600	21,430	12,330	145,166
1976	NA	NA	—	NA	NA	NA	NA	160,414
1977	NA	NA	—	NA	NA	NA	NA	181,509
1978	NA	NA	—	NA	NA	NA	NA	202,237

NOTE: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication. A survey by the Social Security Administration indicates there were 27,500,000 unduplicated number of persons covered by all private plans, insured and uninsured, and not yet receiving pensions at year-end 1972.

NA = Not Available. Due to changes in reporting requirements, some data for 1976 to 1978 are not yet available. They will be reported in subsequent editions of *Pension Facts* when they become available from the U.S. Department of Labor.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCES: Social Security Administration, U.S. Department of Health, Education and Welfare, and Securities and Exchange Commission.

TABLE 10
DISTRIBUTION OF ASSETS OF NONINSURED PENSION FUNDS
BOOK VALUE END OF YEAR
(000,000 Omitted)

	U.S. Government Securities	Corporate and Other Bonds	Stocks		Mortgages	Cash and Deposit	Other	Total
			Preferred	Common				
1950	$ 1,966	$ 2,828	$ 304	$ 802	$ 102	$ 264	$ 186	$ 6,452
1955	2,992	7,856	612	3,354	321	415	591	16,141
1960	2,683	15,699	776	10,734	1,301	546	1,399	33,138
1961	2,715	16,882	762	13,342	1,560	660	1,590	37,511
1962	2,925	18,101	750	15,728	1,876	707	1,805	41,892
1963	3,049	19,560	712	18,118	2,220	773	2,122	46,554
1964	3,193	21,418	650	20,953	2,778	890	2,537	52,419
1965	2,994	23,129	750	25,117	3,385	940	2,870	59,185
1966	2,751	25,231	790	29,067	3,911	900	3,520	66,170
1967	2,324	26,355	980	34,946	4,083	1,320	4,232	74,240
1968	2,756	27,000	1,332	41,740	4,067	1,592	4,585	83,072
1969	2,792	27,613	1,757	47,862	4,216	1,619	4,720	90,579
1970	3,029	29,666	1,736	51,744	4,172	1,804	4,860	97,011
1971	2,732	29,013	1,767	62,780	3,660	1,641	4,826	106,419
1972	3,689	28,207	1,481	74,585	2,728	1,857	4,983	117,530
1973	4,404	30,334	1,258	80,593	2,377	2,336	5,229	126,531
1974	5,533	35,029	1,129	79,319	2,372	4,286	6,063	133,731
1975	10,764	37,809	1,188	83,654	2,383	2,962	6,406	145,166
1976	14,713	39,070	1,250	93,359	2,369	2,199	7,454	160,414
1977	20,138	45,580	1,168	96,984	2,497	3,721	11,421	181,509
1978	19,695	53,824	1,274	100,424	2,789	8,110	16,121	202,237

SOURCE: U.S. Securities and Exchange Commission.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds and the Federal government, which operates not only the Social Security system but retirement plans for civilian and military Federal government employees and railroad employees. ERISA covers only private plans but required a congressional study of government pension plans. Some of the findings of this study of public employee retirement systems, as well as other ongoing studies affecting governmental retirement plans are discussed in this chapter.

Social Security System

Social Security, the largest social and economic program of the Federal government, is financed through a wage-base system of calculating employer-employee contributed taxes to provide benefit payments to retired and disabled people, their dependents and survivors. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes paid into the Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds are at equal rates for employers and their employees. The tax rate for self-employed persons is one and one-half times the employee rate. Some 156 million persons had Social Security earnings credits at the end of 1978. Of these, 128.4 million had been in the program long enough to be fully insured.

A total of $89.9 billion in Social Security taxes (excluding Medicare) was paid in 1978, including $43.2 billion by employers, $42.9 billion by employees and $3.8 billion by self-employed persons. Combined assets of the Social Security trust funds for cash benefits totaled nearly $32 billion at year-end 1978.

For 1978, Social Security payments amounted to $117.8 billion, including Medicare payments. Table 12 refers only to the retirement portion and the disability provisions.

In 1977, the Congress approved legislation known as the Social Security Amendments of 1977. It was designed to bolster the system's trust funds. Reports since the early 1970s indicated the program was being underfinanced. Short-term as well as long-term actuarial deficits were forecasted.

The system's financing problems have been attributed to the current economic situation, evolving demographic changes and the

effect of automatic cost-of-living benefit provisions that existed prior to the 1977 law. For the most part, the 1977 Amendments corrected the system's short-range financing problems and some of the long-range problems by increasing tax revenues through a payroll tax and by more equitably adjusting Social Security benefits for inflation. The 1977 law included some increases in Social Security benefits and also increased the annual amount of earnings a beneficiary age 65 or older could have without reduction of Social Security benefits. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be reduced or stopped because of remarriage. To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

The U.S. Social Security system has undergone many changes in its function since Congress passed the Social Security Act in 1935. The early program was concerned with building up reserves and was based on the concept of wage-related benefits jointly financed by private sector employers and employees. It was designed to provide a floor of economic protection for elderly persons without making the benefits so high that private employer-employee plans, personal savings, insurance and investments would be discouraged.

Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine out of ten employed persons are presently covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), Federal employees under any Federal retirement system, certain employees of state and local governments, nonprofit groups (whose coverage is optional), irregularly employed farm and domestic workers and low income self-employed persons. Retirement benefits under Social Security are payable according to law, upon actual retirement at or after age 62 (benefits are reduced for retirement prior to 65) and after a service requirement is met. When the program was first created, some social-adequacy types of payments were included, but subsequent changes expanded the system so that it provides minimum benefits and dependents' and survivors' benefits with only incidental relation to the earnings on which taxes were paid. Percentage increases in the benefit structure, partly to adjust for inflation, have diluted the wage-related benefit and tax concept. The benefit formulas have always been weighted toward lower-paid employees.

The 1977 modification to correct the automatic inflation adjustment in the benefit formula eliminated about half the projected long-term actuarial deficit. Attention is focused on the projected demographic trend of rising numbers of older people qualifying for Social Security benefits in relation to a relatively smaller workforce that will have to bear the cost of financing their benefits. The system's financing and benefit structure has impact on the private pension system as well as public sector plans. The effects of these developments and the interrelationships of these retirement systems are discussed in the chapter on the "Future of Pension Plans."

The Federal government has established three study groups to examine Social Security and retirement issues. These groups include: the Quadrennial Social Security Advisory Council, which will submit recommendations on the program to the Secretary of Health, Education and Welfare (HEW); the 9-member bi-partisan National Commission on Social Security, which was formed under the 1977 law to examine Social Security issues; and the President's Commission on Pension Policy, which has a wide-ranging mandate to examine both private and public pension issues. HEW is also examining universal coverage of government employees and the treatment of women under Social Security.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the Federal government and its instrumentalities for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System, the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

The largest is the U.S. Civil Service Retirement System, with 2.7 million active workers on its rolls at year-end 1978. Federal civilian plans provided benefit payments in 1978 of $10.7 billion to 1.6 million retired workers and their survivors and dependents, and had accumulated assets of $56.3 billion. Employer and employee contributions totaled about $14.2 billion in 1978. The share of the employer (the Federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets. The Congressional Budget

Office estimates indicate that the Civil Service Retirement Fund's unfunded liability could reach $130.8 billion by fiscal 1980 and $160.1 billion by 1984.

The Federal civilian retirement system operates independently of the Social Security system, and, as a consequence, the pension formulas for Federal plans, which include employee contributions and provide for costs-of-living adjustments, are set higher than if the pension benefits were integrated with Social Security. However, the Civil Service System's current retirement program also includes provisions that encourage Federal employees to retire at much earlier ages than do private sector employees. As a result, many Federal Civil Service retirees are also able to qualify for Social Security benefits. In one recent year, 67% of all civil service annuitants age 65 and over were also receiving Social Security benefits.

However, the majority of these retirees became eligible for OASDI benefits through pre-government employment rather than through employment after government retirement. Social Security Administration statistics also show that by December 31, 1975, 98.5% of Federal government workers in positions covered by the Civil Service Retirement System had had some employment under OASDI. Seventy-six percent had enough OASDI-covered employment to qualify for survivor benefits and 40 percent had enough to guarantee themselves eligibility for retirement benefits after age 62. In a study 8 years earlier, the comparable percentages were 95% for some OASDI-covered employment, 68% for survivor benefits and 33% for retirement benefits.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the Federal government that covers a single industry. Railroad plans are not covered by ERISA. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits on an actuarially sound basis.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the

employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1978, the Railroad Retirement System covered 553,000 workers and during 1978 paid retirement benefits of $2.4 billion to 459,000 age, service and disability annuitants. In addition, $1.7 billion was paid to some 568,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters and other employees of state, county and city governments. In 1978, such government pension plans paid $9.6 billion in benefits to over 2.2 million retired workers and their survivors and dependents. Financial assets held by these systems totaled $142.6 billion at year-end 1978. Employer and employee contributions to the plans amounted to $19.3 billion, with employers paying 70.5%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About 72% of all state and local employees have Social Security; the majority are also covered by their own pension plans.

A problem with elective Social Security coverage for state and local government employees is that several states joined the Social Security system when benefits were low, but benefits have increased so much that combined with other retirement benefits, often a retired public employee will be receiving a retirement income well above the salary that employee was earning prior to retirement.

Many proposals have been made recently to improve Federal, state and local government pension plans, particularly with regard to their reporting, disclosure of operations and funding practices. The Congressional study mandated by ERISA found that often funding schedules for these plans were inadequate. The study recommended Federal regulation of public pension plans in a form similar to that of ERISA. Legislation has been introduced in this area and the relationship among Social Security, public and private pension plans is being studied by such groups as the President's Commission on Pension Policy.

TABLE 11
THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM
(in Millions)

Year	Estimated Number of Persons (End of Year)			Contributions During Year*			
	Persons with Wage Credits**	Persons Employed with Coverage in Effect	Assets† (End of Year) (Trust Funds)	Employer	Employee	Self-Employed	Total
1940	44.8	27.4	$ 2,031	$ 319	$ 319	—	$ 638
1945	72.4	39.2	7,121	643	643	—	1,285
1950	82.7	41.0	13,721	1,334	1,334	—	2,667
1955	98.6	56.2	21,663	2,730	2,664	$ 319	5,713
1960	109.4	59.0	22,613	5,632	5,543	701	11,876
1965	121.3	66.4	19,841	8,183	7,991	1,032	17,205
1970	135.9	72.7	38,068	16,600	16,336	1,800	34,736
1971	138.2	73.1	40,433	18,488	18,051	1,804	38,343
1972	140.6	75.5	42,775	20,800	20,288	1,800	42,888
1973	142.9	78.1	44,414	25,100	24,207	2,600	51,907
1974	145.2	79.3	45,886	28,311	27,896	2,699	58,906
1975	148.3	78.3	44,342	30,746	30,477	3,036	64,259
1976	150.9	80.7	41,133	34,381	34,080	3,133	71,594
1977	153.2	83.4	35,861	37,724	37,439	3,547	78,710
1978	155.7	86.8	31,746	43,245	42,871	3,768	89,884

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare.

TABLE 12
PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired Workers and Survivors of Deceased Workers		Total	
	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)
1940	112	$ 15	100	$ 20	222	$ 35
1945	518	126	770	148	1,288	274
1950	1,771	557	1,706	404	3,477	961
1955	4,474	3,253	3,487	1,715	7,961	4,968
1960	8,517	7,542	6,328	3,703	14,845	11,245
1965	12,089	12,230	8,778	6,081	20,867	18,311
1970	14,845	21,191	11,390	10,379	26,235	31,570
1971	15,575	24,616	11,717	12,249	27,292	36,865
1972	16,388	25,687	12,088	12,578	28,476	38,265
1973	17,382	31,728	12,486	15,200	29,868	46,928
1974	18,195	39,029	12,659	19,492	30,854	58,521
1975	19,077	45,002	13,008	21,921	32,085	66,923
1976	19,836	51,247	13,188	24,418	33,024	75,665
1977	20,667	57,540	13,416	26,986	34,083	84,576
1978	21,238	63,711	13,349	29,154	34,587	92,865

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as cost of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for noncontributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare.

TABLE 13
FEDERAL CIVILIAN RETIREMENT SYSTEMS
(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Receiving Benefits									
		Retired or Disabled	Survivors, Dependents	Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	Assets and Reserves
1950											
Federal Civil Service	1,670	154	18	1,842	$ 307	$ 370	$ 677	$ 176	$ 8	$ 184	$ 4,202
Federal Reserve Board†	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	*	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	*	-	9	2	2	4	**	-	*	27
Total	1,699	155	18	1,872	316	377	693	178	8	186	4,344
1960											
Federal Civil Service	2,154	361	150	2,665	823	787	1,610	700	105	805	10,480
Federal Reserve Board†	20	3	*	23	9	3	12	5	**	5	178
Foreign Service	4	*	*	4	2	2	4	3	**	3	29
Tennessee Valley Authority	10	1	*	11	5	3	8	1	**	1	103
Total	2,188	365	150	2,703	839	795	1,634	709	105	814	10,790
1970											
Federal Civil Service	2,612	662	297	3,571	2,001	1,869	3,870	2,368	429	2,797	23,294
Federal Reserve Board	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	*	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	-	15	12	3	15	7	1	8	226
Total	2,654	672	298	3,624	2,041	1,880	3,921	2,406	432	2,838	23,922
1971											
Federal Civil Service	2,516	711	315	3,542	2,663	1,920	4,583	2,771	500	3,271	25,900
Federal Reserve Board	23	5	1	29	15	1	16	16	1	17	336
Foreign Service	6	3	*	9	10	9	19	25	1	26	55
Tennessee Valley Authority	14	2	*	16	15	3	18	8	1	9	241
Total	2,559	721	316	3,596	2,703	1,933	4,636	2,820	503	3,323	26,532
1972											
Federal Civil Service	2,588	758	333	3,679	3,206	2,073	5,279	3,361	585	3,946	29,200
Federal Reserve Board	25	6	1	32	10	1	11	16	2	18	457
Foreign Service	9	2	*	11	11	8	19	25	2	27	59
Tennessee Valley Authority	14	3	*	17	17	4	21	10	1	11	262
Total	2,636	769	334	3,739	3,249	2,086	5,330	3,412	590	4,002	29,978

1973											
Federal Civil Service	2,782	844	349	3,975	3,901	2,140	6,041	4,146	642	4,788	31,500
Federal Reserve Board	27	6	1	34	12	1	13	19	2	21	427
Foreign Service	9	3	*	12	20†	9	29	31	2	33	68
Tennessee Valley Authority	15	3	1	19	19	4	23	11	**	11	288
Total	2,833	856	351	4,040	3,952	2,154	6,106	4,207	646	4,853	32,283
1974											
Federal Civil Service	2,683	939	368	3,990	4,817	2,332	7,149	5,276	785	6,061	34,600
Federal Reserve Board	28	6	1	35	12	1	13	23	2	25	359
Foreign Service	9	3	1	13	30	11	41	42	2	44	104
Tennessee Valley Authority	15	3	1	19	18	4	22	13	1	14	303
Total	2,735	951	371	4,057	4,877	2,348	7,225	5,354	740	6,144	35,366
1975											
Federal Civil Service	2,730	990	382	4,102	6,707	2,534	9,241	6,052	908	6,960	38,351
Federal Reserve Board	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2,782	1,004	385	4,171	6,786	2,553	9,339	6,141	915	7,056	39,248
1976											
Federal Civil Service	2,707	1,038	394	4,139	7,877	2,780	10,657	7,098	1,077	8,175	43,063
Federal Reserve Board	26	6	1	33	36	2	38	26	3	29	494
Foreign Service	10	4	1	15	17	14	31	77	6	83	184
Tennessee Valley Authority	18	4	1	23	25	7	32	18	2	20	348
Total	2,761	1,052	397	4,210	7,955	2,803	10,758	7,219	1,088	8,307	44,089
1977											
Federal Civil Service	2,716	1,097	406	4,219	9,337	2,931	12,268	8,143	1,238	9,381	49,687
Federal Reserve Board	25	7	1	33	44	2	46	29	3	32	495
Foreign Service	10	4	1	15	31	17	48	76	6	82	268
Tennessee Valley Authority	20	4	1	25	30	9	39	20	2	22	382
Total	2,771	1,112	409	4,292	9,442	2,959	12,401	8,268	1,249	9,517	50,832
1978											
Federal Civil Service	2,737	1,148	416	4,301	11,035	3,194	14,229	9,246	1,423	10,669	56,323
Federal Reserve Board	25	7	1	33	49	2	51	31	3	34	550
Foreign Service	10	6	1	17	27	19	46	87	6	93	374
Tennessee Valley Authority	24	4	1	29	38	12	50	23	2	25	430
Total	2,796	1,165	419	4,380	11,149	3,227	14,376	9,387	1,434	10,821	57,677

NOTE: Details may not add to totals due to rounding. Data for Federal Reserve Board are for calendar years. Data for all other plans are for fiscal years.

*Less than 500.

**Less than $500,000.

†Prior to 1970, data include Federal Reserve Bank Plan, which is now noncontributory.

SOURCES: U.S. Office of Personnel Management (formerly U.S. Civil Service Commission); Retirement System of the Federal Reserve Board; U.S. Department of State; and George B. Buck Consulting Actuaries.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries at this time, and pension fund assets were about $10 million.

In 1930, about 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled $90 million, and reserves amounted to $800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the Federally-administered Railroad Retirement System was established.) Contributions to all private pension plans (other than those for railroad workers) amounted to $200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the Federal Social Security program in 1935 made retirement planning more widely applicable on a national scale. By 1940, more than 4 million active workers participated in private pension plans, with 160,000 retired workers receiving annual

benefit payments of $140 million. Reserves totaled $2.4 billion. Contributions to all private pension plans exceeded $300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans established.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the allowance of employer pension contributions as a deduction from the taxable income of employers were significant incentives to the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus to private pensions arose from the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants during 1940-45. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950, reserves of private plans reached nearly $12 billion, and benefit payments totaled $370 million. Annual contributions to private plans were over $2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was primarily due to the fact that many plans adopted during World War II and most pension plans agreed to by collective bargaining were noncontributory on the part of employees.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence for the retired worker.

The greatest growth in private pension plans in terms of coverage, contributions, beneficiaries, benefit payments and assets occurred during 1950-60. Private plans covered 20.5 million persons and annual contributions reached $5.5 billion by year-end 1960. Reserves increased to $52 billion, and benefit payments totaled $1.7 billion.

The growth rate in terms of contributions and benefits under private retirement plans slowed during 1960-70, and much of the growth that occurred was due to inflation. At year-end 1970, 30.8 million persons were covered by private pension plans, and contributions were $14 billion. Benefit payments amounted to $7.4 billion, and reserves reached $137 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, more than 3.9 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 6.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.5 million active workers were covered by all private pension plans, and contributions were about $32.2 billion. During 1970-75, benefit payments more than doubled to $14.9 billion, and reserves increased by 57% to $217.4 billion.

Private pension assets administered by life insurance companies or held in trust by banks or trust companies totaled some $286.5 billion by the end of 1977. Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have more than doubled since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

1859 New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.

1875 First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.

1880 First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

1892 Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.

1893 First pension plan for public school teachers was established in Chicago.

1901 Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.

1903 Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.

1905 First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.

1905 Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.

1907 The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.

1920 The Federal Civil Service Retirement and Disability Fund was created by Congress.

1921 First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.

1935 Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.

1935 Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1974, to provide supplemental security income benefits to persons 65 or older, blind, disabled, with little or no income; in 1977 to increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

1949 The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.

1949 The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.

1952 College Retirement Equities Fund (CREF) was established as the first variable annuity fund.

1957 Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the Federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.

1958 A provision for U.S. Presidents' retirement benefit and widows of U.S. Presidents benefit was established as part of the U.S. Code.

1959 Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.

1962 H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act) and was subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.

Early 1960s Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.

1963-1964

The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.

1965 The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

1974 The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.

1978 The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for Federal employees. (See discussion beginning on page 50.)

THE FUTURE OF PENSION PLANS

The future of pensions will be affected by a significant decrease in the population growth rate during the last quarter of this century and a modest increase in the old-age population as the post-World War II "baby-boom" creates a "senior-boom" early in the 21st century. The resulting changes in the ratio of retired persons to active workers will have a significant impact on pension plans.

Other factors such as the new mandatory retirement law and changes in the Social Security system may also measurably affect private pension plans in the future.

The Aging Population

The elderly population (65 years and over) is projected to grow to 35 million by 2010 and to 55 million by 2030, as shown in Table 16. The elderly proportion of the total population, which was 10.7% in 1976, will begin to increase rapidly in 2010, as the "baby-boom" generation approaches age 65. In 2010 the elderly proportion will increase to 12.7%, and to 18.3% in 2030. Rising life expectancy trends indicate that of the 6.9 million increase expected in the 1980s and 1990s, almost three-fourths will be in the 75-and-over age group. Estimates of Federal spending for the elderly range from 23% to 39% of the Federal budget, and the Government has projected that by 2025, 40% of the budget will be needed to meet the demands of the elderly population.

Today a high proportion of persons retire earlier than age 65. The Social Security retirement age (with actuarially reduced benefits) for men was lowered to 62 in 1961; women have been able to retire at age 62 since 1956. Currently, 70% of the men and 80% of the women going on Social Security rolls receive actuarially reduced payments because they are retiring prior to age 65.

The longer life expectancy of the elderly population and patterns of earlier retirements have increased the financial burden on pension and retirement programs, particularly Social Security. Social Security Administration projections indicate that in the future fewer workers will be supporting greater numbers of beneficiaries (Table 17).

Another measure of the future burden of retirees on pension systems is "aged dependency"—the size of the assumed retired population to the assumed working population, including those not covered by Social Security. The President's Commission on Pension Policy, using Bureau of the Census figures, has calculated future aged dependency ratios using two population projection

TABLE 14
RAILROAD RETIREMENT SYSTEM

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	Assets
1930	*	*	-	1,400	$ 30	-	$ 30	NA	-	NA	-
1940	1,205	141	3	1,349	65	$ 65	130	$ 114	-	$ 114	$ 136
1950	1,494	251	136	1,881	273	273	546	254	NA	NA	2,553
1960	862	384	408	1,654	298	298	596	626	$ 336	962	3,740
1970	650	444	539	1,633	493	467	960	1,108	663	1,771	4,398
1971	595	440	543	1,578	475	450	925	1,200	802	2,002	4,300
1972	586	447	542	1,575	525	475	1,000	1,350	825	2,175	4,100
1973	589	443	550	1,582	540	500	1,040	1,550	1,015	2,565	3,800
1974	585	457	546**	1,588	1,201	421	1,622	1,710	1,098	2,808	3,600
1975	532	469	563**	1,564	1,209	423	1,632	1,970	1,313	3,283	3,100
1976	541	466	565**	1,572	1,325	465	1,790	2,102	1,469	3,571	3,065
1977	534	464	569**	1,567	1,457	507	1,964	2,245	1,579	3,824	2,584
1978	553	459	568**	1,580	1,520	546	2,066	2,353	1,668	4,021	2,787

NA = Not Available.

*Not available separately.

**Figure includes employee annuitants also receiving benefits as dependents of survivors.

SOURCE: U.S. Railroad Retirement Board.

TABLE 15
STATE AND LOCAL GOVERNMENT RETIREMENT PLANS

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	Assets
1950	2,600	254	40	2,894	$ 510	$ 395	$ 905	$ 274	$ 26	$ 300	$ 5,154
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015	19,600
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120	50,200
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620	64,800
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335	73,400
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075	82,700
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835	92,400
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725	103,700
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700	117,300
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455	130,800
1978	11,300*	2,050*	190*	13,540*	13,621	5,688	19,309	9,000*	550*	9,550	142,600

NOTE: Some data are revised. Beneficiaries are as of June 30, financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter.

*Estimated.

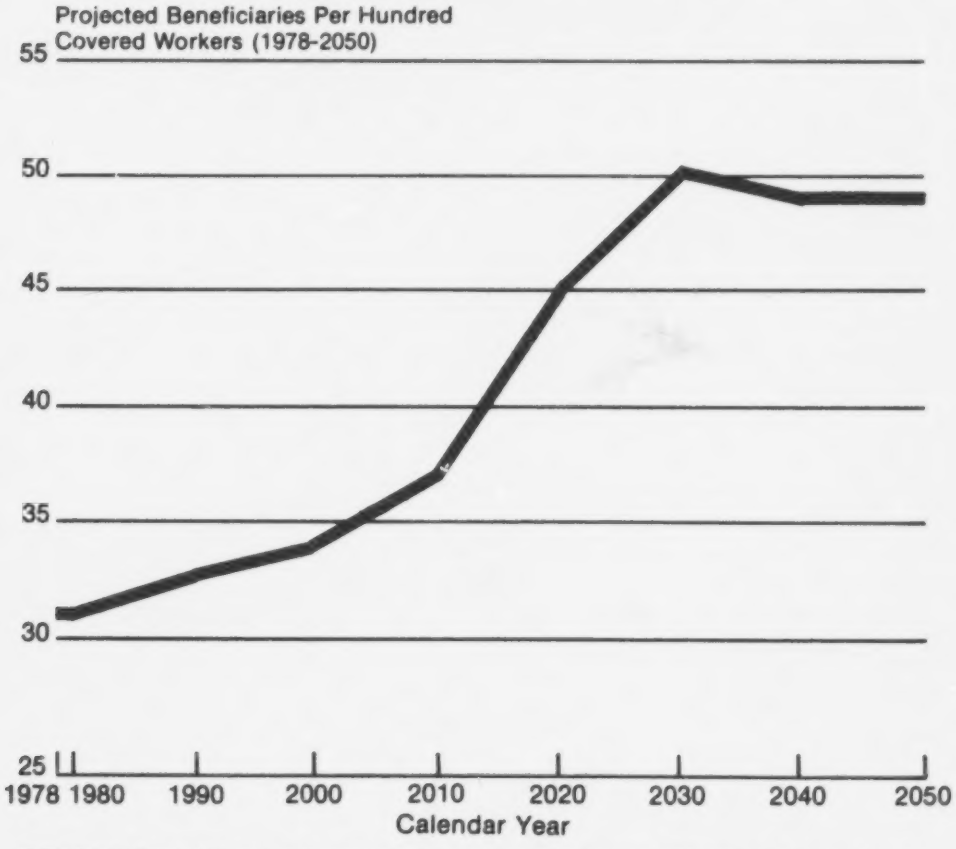
SOURCES: U.S. Bureau of the Census, U.S. Department of Commerce; and U.S. Securities and Exchange Commission.

TABLE 17
PROJECTED POPULATION, BENEFICIARIES, AND WORKERS IN COVERED OASDI EMPLOYMENT

Year	Total Population	OASDI Beneficiaries	Covered Workers	Beneficiaries Per Hundred Covered Workers
1978	227.9	34.5	110.1	31
2000	268.7	47.7	138.7	34
2025	303.0	72.3	149.0	49
2050	322.2	76.9	157.8	49

SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare, 1978 Annual Report of the Board of Trustees of the OASDI Trust Funds.

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM



SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare. Based on 1978 *Annual Report of the Board of Trustees of the OASDP Trust Funds*—Alternative II.

series. The Bureau of the Census' Series II assumes that fertility will equal the theoretical replacement level of 2.1 children per woman. Series III assumes a lower fertility rate of 1.7. While many Census Bureau projections are based on Series II, in recent years actual fertility experience has more closely followed Series III projections. For this reason both series projections are shown in Table 18. These calculations result in a somewhat lower ratio of retirees to workers since only beneficiaries 65 and older are included.

TABLE 18
POTENTIAL DEPENDENT POPULATION AS A PERCENT OF THE POTENTIAL WORKING POPULATION

	Actual	
1930	9.1%	
1940	10.9	
1950	13.4	
1960	16.8	
1970	17.5	
	Series II	**Series III**
Projections		
1980	18.4%	18.4%
1990	20.0	20.0
2000	19.9	20.2
2010	20.2	21.2
2020	26.0	28.6
2030	31.8	37.6
2040	30.6	39.0

SOURCE: U.S. Bureau of the Census, Current Population Reports, *Series P-25, No. 704, July 1977.*

Assuming that the Social Security benefit structure remains unchanged and the retirement age under Social Security remains the same in the 21st century, the expenditures of the Social Security system will represent an ever increasing percentage of taxable payroll, as shown in Table 19.

If, however, the minimum retirement age under Social Security were to be raised in future years, the aged dependency ratio would

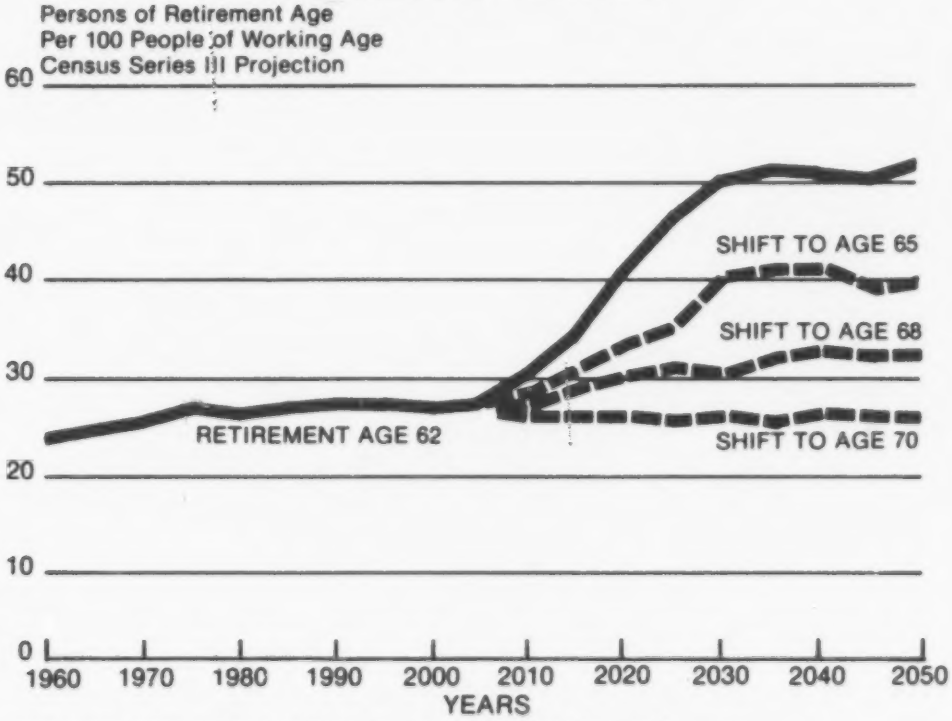
TABLE 19
ESTIMATED EXPENDITURES OF THE SOCIAL SECURITY SYSTEM AS A PERCENT OF TAXABLE PAYROLL

	Series II	Series III
1979	10.36	10.35
1990	10.70	11.25
2000	10.65	11.44
2010	11.58	13.09
2020	14.29	17.21
2030	16.44	21.59
2040	16.29	23.75
2050	16.15	25.17
2055	16.27	25.65

SOURCE: The 1979 Annual Report of the Board of Trustees and Survivors Insurance and Disability Insurance Trust Funds.

be lower. The figure below demonstrates that, based on current Census Bureau population projections (Series III), if the normal retirement age under Social Security is raised to 70 and the early retirement option is phased out, the dependency ratio would remain

DEPENDENCY RATIOS



SOURCE: OMB Technical Staff paper by Douglas Norwood.

essentially constant to the year 2050. If the minimum retirement age remains at 62, the dependency ratio would more than double by 2050.

Social Security and Private Pensions

Social Security represents an important source of income for a growing percentage of those aged 65 and over. Although a growing minority of retirees also receives income from private pensions, a dwindling percentage receives income from wages (Table 20).

TABLE 20
SOURCES OF INCOME FOR ELDERLY
(Percent receiving income from each source)

	Married*				Single			
Sources of Income	**1962**	**1967**	**1971**	**1976**	**1962**	**1967**	**1971**	**1976**
Social security**	83%	92%	89%	94%	65%	88%	85%	91%
Private pensions	16	19	23	28	5	7	12	14
Government pensions***	7	7	8	12	4	5	5	8
Wages****	55	46	49	41	24	15	18	16
Savings	63	60	58	66	48	44	43	49
Veterans' benefits	14	12	8	6	8	9	8	6
Public assistance	8	6	6	6	17	15	13	15

*Includes couples with only one spouse 65 or over.
**Includes railroad retirement.
***Includes civil service, state and local pensions.
****Percentages for married couples inflated by earnings of working spouses under 65.

SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare.

A study of U.S. security expenditures by the Life Insurance Marketing and Research Association (LIMRA) estimates that the pension share of total before-tax income increased from 5.6% in 1960 to 10.1% in 1976. The LIMRA study defines security expenditures as "spending for life insurance, health insurance, and retirement plans." Most of this growth in the pension share was due to increased contributions to group pensions, Social Security and—since1974—Individual Retirement Accounts. The study also shows that pensions, as a proportion of all security expenditures made to private sector organizations, increased from just over one-fifth in 1960 to more than one-third in 1976.

In addition, the LIMRA study shows that the expansion of Social Security in 1977 will accelerate the decline in the proportion of security expenditures made to private sector organizations and the increase in the flow of expenditures to the Government.

TABLE 21
OLD-AGE, SURVIVORS AND DISABILITY INSURANCE CONTRIBUTION AND BENEFIT BASES AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937-49	$3,000	1.000	1.000	—	—	—	—
1950	3,000	1.500	1.500	—	—	—	—
1951-53	3,600	1.500	1.500	—	2.2500	2.2500	—
1954	3,600	2.000	2.000	—	3.0000	3.0000	—
1955-56	4,200	2.000	2.000	—	3.0000	3.0000	—
1957-58	4,200	2.250	2.000	.250	3.3750	3.0000	.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
Changes scheduled in present law:							
1980	25,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1981	29,700	5.350	4.525	.825	8.0000	6.7625	1.2375
1982-84	Subject	5.400	4.575	.825	8.0500	6.8125	1.2375
1985-89	to auto-	5.700	4.750	.950	8.5500	7.1250	1.4250
1990 and later	matic increase	6.200	5.100	1.100	9.3000	7.6500	1.6500

SOURCE: Social Security Administration, U.S. Department of Health, Education and Welfare. Based on 1979 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds.

Data from the Social Security Administration indicate that even before automatic cost-of-living adjustments in Social Security benefits began in 1975, income from private pensions was already providing in aggregate a smaller and smaller proportion of *retirement* benefits. The data in Table 22 show that a sample of Social Security recipients who were not receiving any income from wages in either 1970 or 1974 saw the proportion of their retirement income provided by private pensions drop from 56% to 46%.

TABLE 22
PRIVATE PENSION BENEFIT AS PERCENT OF TOTAL RETIREMENT BENEFITS, 1970 AND 1974, FOR OASDI BENEFICIARY NONEARNERS, BY AGE*

Private pension benefits as percent of total retirement benefits	Nonearners receiving private pension benefits, by age**					
	Total		61-62/ 65-66		63-64/ 67-68	
	1970	1974	1970	1974	1970	1974
Total percent	100	100	100	100	100	100
1-19	3	9	1	11	3	9
20-29	8	12	11	4	6	14
30-39	15	16	11	15	15	17
40-49	13	21	11	20	15	24
50-59	19	20	15	26	25	18
60-69	12	12	14	20	14	5
70-79	12	7	20	3	11	12
80-100	17	3	18	1	11	1
Median percent	56	46	61	50	54	44

*Persons receiving private pension benefits in both 1970 and 1974.

**Individuals ages 61-62 in 1970 and 65-66 in 1974, etc.

SOURCE: Social Security Bulletin, *November 1978.*

Although Social Security benefits are now automatically adjusted for inflation, private pension benefits rarely are adjusted automatically. Estimates of the percentage of private pensions with automatic cost-of-living adjustments vary from 3% to 7%. [By comparison, the Congressional *Pension Task Force Report on Public Employee Retirement Systems* shows 34% of plans for Federal employees (covering 99% of Federal employees) and 23% of plans for state and local employees (covering 50% of such employees) contain automatic cost-of-living adjustments.]

Another measure of the increasing role of Social Security in providing retirement income is the percentage of *preretirement* income replaced by Social Security. Table 23 shows the Social Security replacement rates for a 65-year-old male retiree earning the median wage in each year. In the 10 years between 1967 and 1977, the Social Security replacement rate increased from 28.9% to 44.7%. The replacement rates are even higher for married couples and for individuals earning less than the median wage, as shown in Table 24. The 1977 Social Security Amendments corrected the

TABLE 23
SOCIAL SECURITY REPLACEMENT RATE FOR A 65-YEAR OLD MALE RETIREE EARNING THE MEDIAN WAGE, SELECTED YEARS 1940-1977

Year of Retirement	Replacement Rate*
1940	0.292**
1945	0.222**
1950	0.192**
1955	0.344
1960	0.330
1965	0.314
1966	0.302
1967	0.289
1968	0.310
1969	0.296
1970	0.311
1971	0.349
1972	0.342
1973	0.381
1974	0.388
1975	0.404
1976	0.433
1977	0.447

*The replacement rate is the value of the benefit in the year of retirement divided by the median wage in the year prior to retirement. The benefit is for a hypothetical male earning the median wage for each year in the average period.

**Replacement rates for 1940-1950 were approximated by the ratio of average benefit award to average taxable wages. For later years, this ratio is very similar to the actual replacement rate. The figure for 1950 pertains to January through August; a legislated benefit increase became effective in September.

SOURCES: U.S. Social Security Administration, Social Security Bulletin, Annual Statistical Supplement 1974. *Congressional Budget Office,* Financing Social Security: Issues for the Short and Long Term, *(Washington, D.C., July 1977).*

over-indexing of benefit formulas so that the new replacement rates will be slightly lower than the 1977 levels but still be at least 40% of preretirement earnings for the average worker.

Alicia Munnell of the Federal Reserve Bank of Boston estimates that the retired couple with earnings up to the median requires only 65-80% of preretirement income to maintain its preretirement standard of living because of reduced expenses, Medicare and

TABLE 24
MONTHLY BENEFITS, REPLACEMENT RATES AND FAMILY BENEFIT AS A PERCENT OF PRIMARY INSURANCE AMOUNT, BY TYPE OF BENEFICIARY, JANUARY 1977

Type of Beneficiary	Family Benefit as Percent of PIA	Monthly Benefit			Replacement Rate*		
		Low** ($4,416 in 1976)	Median† ($8,832 in 1976)	Maximum†† ($15,300 in 1976)	Low**	Median†	Maximum††
Worker							
Aged 65	100.0	$214	$329	$413	.635	.447	.324
62	80.0	171	263	330	.466	.358	.259
Worker Aged 65 with Wife							
Aged 65	150.0	320	493	619	.873	.671	.486
62	137.5	294	452	567	.800	.615	.445
Worker Aged 62 with Wife							
Aged 65	130.0	278	427	537	.756	.582	.421
62	117.5	251	386	485	.684	.526	.380
Widow Aged 65, Spouse Retired at							
Age 65	100.0	214	329	413	.635	.447	.324
62	82.5	176	271	340	.480	.369	.267

*The ratio of the PIA at award to monthly taxable earnings in the year just before retirement.

**Assumes annual income equal to half the median for males.

†Assumes annual income equal to the median for all male workers covered under Social Security. Median income figure for 1975 is preliminary from the Social Security Administration. Median earnings for 1976 were estimated by increasing the 1975 figure by 7.3 percent which is the factor of increase in average weekly earnings for 1976. See *Economic Report of the President 1977*, p. 227.

††Assumes income equal to the maximum taxable amount each year.

SOURCE: U.S. Social Security Administration, Office of the Actuary.

lower taxes (Table 25). Thus Social Security benefits provide virtually all the required retirement income for one-half of current retirees, based on the replacement rates shown in Table 24. Since, however, some 35% of workers currently earn between the median and the maximum taxable amount and another 15% earn more than the maximum taxable amount, there is a large role for private pensions to play in maintaining their preretirement standard of living.

TABLE 25
RETIREMENT INCOME EQUIVALENT TO PRERETIREMENT INCOME FOR MARRIED COUPLES RETIRING JANUARY 1976, SELECTED INCOME LEVELS

	Preretirement tax payment					
Preretirement income	Federal income	OASDHI	State and local income*	Reduction in expenses at retirement**	Equivalent retirement income†	
$ 4,000	$ 28	$234	$ 4	$ 544	$3,190	80%
6,000	330	351	43	816	4,460	74
8,000	679	468	89	1,088	5,676	71
10,000	1,059	585	139	1,360	6,857	69
15,000	2,002	824	262	2,040	9,872	66

*In 1974 state and local income tax receipts were 13.1 percent of Federal income tax receipts. This percentage probably rose in 1975 because Federal taxes were decreased while state taxes increased. Therefore the percentage of preretirement income needed to maintain living standards is probably slightly overstated.

**Consumption requirements for a two-person husband-wife family after retirement are 86.4 percent of those for a like family before retirement (aged 55 to 64). Savings are therefore estimated at 13.6 percent of preretirement income.

†Assumes that retirement income is not subject to tax. If retirement income is subject to taxation, a larger preretirement disposable income would be needed to yield the equivalent retirement income.

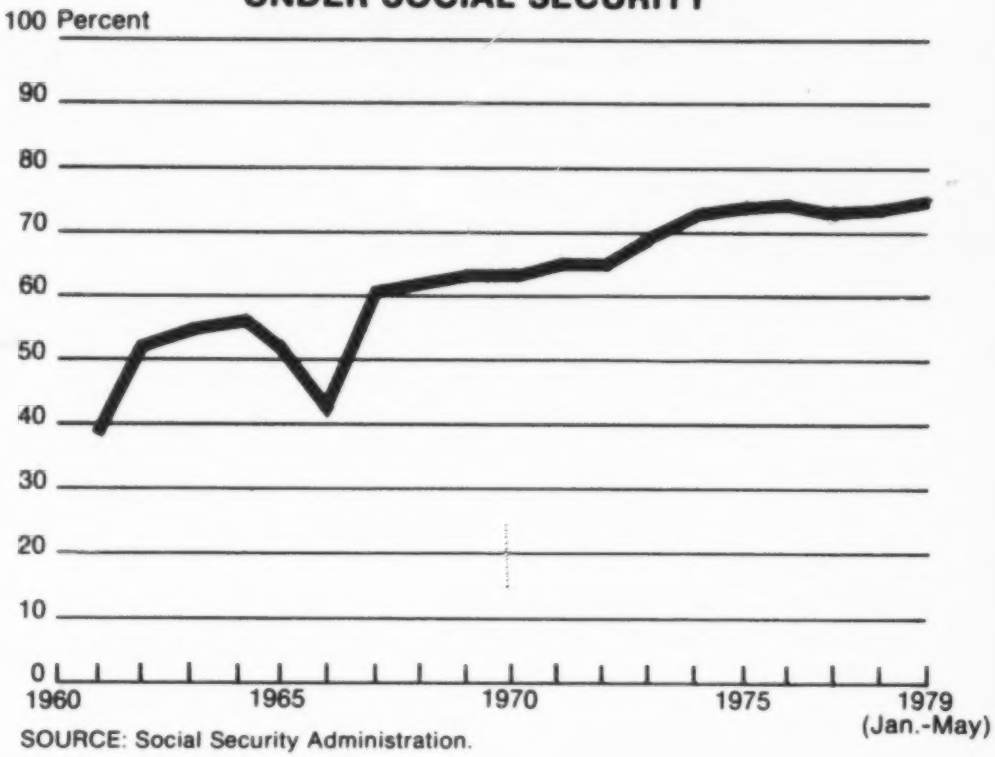
SOURCES: Commerce Clearing House, 1976 U.S. Master Tax Guide *(CCH, 1975); U.S. Bureau of Labor Statistics,* Revised Equivalence Scale for Estimating Equivalent Incomes or Budget Costs by Family Type, *Bulletin 1570-2 (GPO, 1968). Estimates of state and local income tax receipts as a percentage of Federal income tax from Bureau of Economic Analysis.*

Mandatory Retirement

A major new development in 1978 was approval of Federal legislation raising the mandatory retirement age from 65 to 70.

Exempted from the change in the mandatory retirement law are business executives and others in high policy making positions who are eligible for private pension benefits of $27,000 or more annually

PERCENT OF VOLUNTARY EARLY RETIREMENTS UNDER SOCIAL SECURITY



SOURCE: Social Security Administration.

and tenured college professors. The exemption for college professors lapses after July 1982.

The retirement law abolished the Federal Government's retirement age of 70 altogether, except for employees of the Foreign Service, the Panama Canal Zone, the Alaska Railroad, Federal Government police, fire fighters and air traffic controllers.

Additionally, the law does not apply immediately if a worker is covered by a labor union contract in effect on September 1, 1977 that provides for mandatory retirement at age 65. For persons covered under such labor contracts, the new law is deferred until January 1, 1980, or until the contract expires, whichever occurs first.

At present, nearly three-fourths of the workers retiring voluntarily under Social Security do so before reaching age 65. This percentage has grown in recent years. In 1967, 60% of new Social Security beneficiaries retired before age 65. Surveys by the Social Security Administration and others during the period 1968-1971

indicated that only about 7%-8% of retirees were forced to retire at age 65 and would have continued working.

At the time the Age Discrimination in Employment Act was being considered before Congress, the U.S. Department of Labor estimated that about 200,000 additional employees would be working after age 65. This would be a 7% increase in the number of workers, and in line with the results of the surveys conducted 8 to 10 years ago. Recent public opinion survey data, however, indicate that a much higher percentage of current employees do not plan to retire at or before age 65. An American Council of Life Insurance survey of adults early in 1977 indicated that the majority (58%) would retire by age 65; 19% wanted to work longer. One year later, the proportion planning to retire at or before age 65 was down to 50% and those wanting to work beyond that age was 22%.

Even more recently, a Louis Harris and Associates survey conducted in August 1978, reported that 51% of current employees wanted to continue working beyond age 65, while some 22% wanted to retire before age 65. The proportion of older workers (age 50 to 64) wanting to work after age 65 was about the same as that of younger workers.

In the same Louis Harris survey, nearly one-half (46%) of retirees said they would prefer to be working. While it has been conjectured that the high rate of inflation in recent years has influenced many workers in their expressed desire to continue working beyond age 65, a majority (53%) of retirees in the Harris survey said that even if they had an adequate retirement income they would have preferred to continue in some kind of employment.

The experience of one insurance company which has not had a mandatory retirement policy for many years seems more in line with the recent opinion survey data. Over the period 1972-1977, some 45% of retirees were over age 65 and 12% of these were over age 70. Of the employees reaching age 65 during each of the same six years, 85% chose to continue working.

Nevertheless, many private studies have found that employers believe raising the retirement age from 65 to 70 will have minimal impact on the private pension system in terms of existing benefit practices and plan design but expressed some concern over its impact in other personnel matters.

A survey by the Conference Board found that most of a sample of business executives surveyed in 1978 felt that the new law would have little or no impact because they believed that the widespread early retirement trend would continue. The Conference Board study also showed that few executives felt the law would have an impact on promotion opportunities. Nearly half of the respondents said they would prefer to freeze pension benefits achieved at age 65

for employees who work beyond that age so that the pension would be the same, whether retirement occurs at or after age 65. Regarding life insurance, nearly half of the executives said they would reduce face amounts for employees over age 65. The report also cited apprehension about increased potential for lawsuits stemming from decisions based on performance appraisals, particularly for employees age 65 to 69.

A study by George B. Buck Consulting Actuaries, Inc., showed that about two-thirds of 44 employers surveyed would cut off pension benefit accruals under the new law, but most employers had not decided how to revise their benefit plans. The survey found that 44% of the 18 *Fortune 500* companies represented in the survey had already ceased benefit accruals after age 65, while 33% grant accrual after age 65 and 17% have some plans that freeze retirement benefits after age 65 and some that do not.

About half of all surveyed firms said they provide for mandatory retirement at age 70 under the plan, while many of the remaining firms said they would handle mandatory retirement administratively to avoid plan changes in case of future changes in the law.

More than half of 127 corporations responding to a survey by Towers, Perrin, Forster & Crosby reported they would freeze the accrued pensions at age 65, even if employees work beyond that age. According to the survey, 15% of the firms said they would allow employees to accrue pension benefits based on both earnings and service after the normal retirement date, and 6% will credit higher earnings. Sixty-one percent said they would neither discourage or encourage continued employment after normal retirement date, 25% would discourage continued employment and 14% were uncertain as to their plans. The survey also showed that 51% of the firms might decrease the amount of life insurance for employees working past age 65; 31% were uncertain and 18% planned no decrease.

A 1978 survey of personnel directors conducted by the American Society of Personnel Administrators and the Bureau of National Affairs, Inc., also indicated that the new retirement law would have little effect on employers. Many of those surveyed indicated that their employees generally prefer to retire early, and that they have a fairly young work force so experience few retirements. Some 7% of the companies have no mandatory retirement age. The survey showed that benefit accrual after age 65 is expected by 12% of the responding companies and 2% said their plans already provide for such accrual. More than one-fourth of the companies expect increased administrative costs resulting from the new law, particularly legal, record keeping and insurance costs.

TABLE 16
PROJECTIONS OF THE ELDERLY POPULATION: 1980-2050

	Persons (000 Omitted) 1980	% of Total Population	Persons (000 Omitted) 2000	% of Total Population	Persons (000 Omitted) 2020	% of Total Population	Persons (000 Omitted) 2040	% of Total Population	Persons (000 Omitted) 2050	% of Total Population
Age 65-74	15,493	6.97%	17,436	6.70%	28,128	9.70%	27,018	8.76%	28,867	9.15%
Age 75-84	7,140	3.21	10,630	4.08	12,199	4.20	19,927	6.46	17,103	5.42
Age 85+	2,294	1.03	3,756	1.44	4,776	1.65	7,980	2.59	9,523	3.02
Total Age 65+	24,927	11.22%	31,822	12.22%	45,103	15.55%	54,925	17.81%	55,493	17.58%

NOTE: Percents may not to totals add due to rounding. Projections are Series II projections.

SOURCES: Bureau of the Census, U.S. Department of Commerce, "Estimates and Projections of the Population: 1977-2050," Current Population Reports, Series P-25, No. 704, July 1977.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of $67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity, or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semiannually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other 12-consecutive-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed to some future date.

Defined Benefit Plan—A pension plan stating either (a) the benefits to be received by employees after retirement or (b) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—A benefit which permits retirement of a participant prior to the normal retirement date, and usually with a reduced amount of annuity. Early retirement is generally allowed at any time during a period of 5 to ten years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age such as 25 or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets; renders investment advice for a fee, or has authority or responsibility to do so; or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, nonvested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit-sharing plan, such amounts may be allocated to the accounts of remaining participants.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment of the plan, or at the date of the latest liberalization. The maximum annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans must integrate so that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other or either person included in the contract (See *Contingent Annuity Option*.)

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of his employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less.

This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation group.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The Federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons who controls the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the fund accumulated. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company which is separate and apart from its general assets and is generally used for investment of pension assets in common stocks.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account (usually invested primarily in common stocks) in which funds have been set aside to provide the annuity.

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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The Pension Game: American Pension System from the Viewpoint of the Average Woman. Task Force on Sex Discrimination, Civil Rights Division, U.S. Department of Justice. Washington, DC: U.S. Government Printing Office, 1979. 78p. Discusses the structure of pension benefits for working women and for nonworking wives, the demographics on women and how both of these factors affect the pension benefits women receive.

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State and Local Government Pension Funds: Their Role as Institutional Investors. New York: New York Stock Exchange, 1965. 19p.

Stoeber, Edward A. *Pension Reform Act Explained: New Guidelines for Corporate, Keogh, and Individual Retirement Plans.* 2nd ed. Cincinnati, OH: The National Underwriter, 1976. 278p. Explains ERISA and includes a comparison chart of old provisions with the new and key sections of the IRS code with explanations.

Tilove, Robert. *Public Employee Pension Funds: A Twentieth Century Fund Report.* New York: Columbia University, 1976. 384p. Explores major patterns and variations of public pension plans in the context of collective bargaining. Offers proposals for integration of public pension plans with the Social Security system.

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PERIODICALS: A SELECTION OF MAGAZINES WHICH OFTEN INCLUDE ARTICLES ON PENSIONS

Across the Board
Best's Review: Life/Health
BNA Pension Reporter
Business Insurance
Employee Benefit Plan Review
Employee Benefits Journal
Financial Analysts Journal
Institutional Investor
Monthly Labor Review
Pension World
Pensions and Investments
Social Security Bulletin
Statistical Bulletin-SEC

APPENDIX
THE 1974 PENSION REFORM LAW

The Employee Retirement Income Security Act of 1974 ("ERISA") was signed into law on Labor Day, 1974. Under ERISA, an employer is not required to set up an employee pension benefit plan ("pension plan"), but when an employer establishes or maintains a pension plan, it does set standards with which the employer must comply. These standards provide, for participants, protection that did not exist, to a large extent, prior to ERISA. ERISA also provides tax incentives to encourage pension savings by self-employed individuals and their employees, and by individual workers whose employers do not have retirement plans.

The Major Provisions

ERISA's major provisions include:

Participation: Employees who reach age 25, or who have one year's employment, whichever is later, must be eligible to participate in any pension plan. Pension plans with full and immediate vesting may require three years of employment as a prerequisite to participation.

Employees with less than 1,000 hours of employment service during the requisite twelve-month period need not be credited with a year of service for purposes of the eligibility rules.

Vesting: A plan must generally meet one of three alternative minimum vesting formulas with respect to allowed benefits derived from employer contributions.

1. Ten-Year Service Rule—Total vesting after 10 years of service.
2. Graded 15-Year Service Rule—Vesting of 25% after five years of service, increasing 5% each year for the next five years and by 10% for the following five years, resulting in fully vested rights after 15 years.
3. Rule of 45-50% vesting when age and length of service totals 45 years with a minimum of five years of service, or, if earlier, after 10 years of service, regardless of age. Vesting is then increased 10% a year in each of the next five years so that full vesting is attained at the end of that five-year period.

Because these are minimum standards, a plan may provide vesting at a faster rate. In addition, an employee's rights to accrued benefits derived from his own contributions must always be nonforfeitable. Finally, a "year of service" for purposes of vesting is when an employee works 1,000 hours or more during a requisite twelve-month period.

Joint and Survivors Annuity Requirement: All participants must have the option of a continuing pension benefit to a spouse if the retired employee dies before his or her spouse. Employees who have retired or who have reached normal retirement age are assumed to have chosen the joint and survivor annuity option unless they have specifically rejected it in writing within a reasonable period of time prior to retirement. The benefit provided the surviving spouse—married to the employee throughout the one-year period immediately preceding the employee's death—must be at least 50% of the employee's pension. The employee's pension may be reduced to meet the cost of the option. If a plan provides for early retirement, the employee who continues to work after becoming eligible therefor must have the option to provide for a survivor benefit in the case of death before retirement.

Funding Standards: Minimum guidelines are established for funding of pension benefits. Annual minimum contributions to pension plans must be sufficient to meet both the normal costs of the plans and to amortize past service liabilities over no more than 30 years (40 years for multi-employer plans). Experience gains and losses are to be amortized over no more than 15 years for single-employer plans (20 years for multi-employer plans.)

Portability Provisions: An employee changing jobs may defer tax payment on a lump sum distribution of vested pension benefits, if within 60 days of receipt, he or she transfers and invests the distribution in a tax-qualified individual retirement annuity or account, or deposits it in a new employer's qualified retirement plan. ERISA does not require any specific portability provisions from plan to plan.

Plan Termination Insurance: A Federal insurance facility, the Pension Benefit Guaranty Corporation (PBGC) guarantees that participants in covered defined benefit pension plans will receive their vested benefits subject to certain limitations. However, PBGC does not cover profit-sharing, stock bonus, money-purchase and other types of defined contribution plans. Premium payments for the insurance are assessed on covered plans per participant (currently $2.60 per participant in single-employer plans and $.50 per participant in multi-employer plans). The PBGC is presently reorganizing its termination insurance program for multi-employer plans (coverage is now discretionary but becomes mandatory on May 1, 1980).

Fiduciary Standards: ERISA establishes Federal fiduciary standards, imposing strict responsibilities on plan fiduciaries. A plan fiduciary as defined in the law includes any trustee, plan

administrator, investment advisor or any other person who has discretionary control, authority or responsibility in the management of the plan or its assets. Fiduciaries are required to perform their duties solely in the interest of the plan participants and their beneficiaries and according to a "prudent man" rule as defined in the pension law. The rule provides that a fiduciary, in part, must discharge his duties ". . . with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use . . . ." Certain types of conduct and transactions are expressly prohibited, unless specific exemptions are granted by the U.S. Labor and Treasury Departments. Unless a plan is fully insured, funds set aside to provide benefits must be held in trust and used only to provide benefits and pay the necessary costs of running the plan.

Jurisdiction: The Labor and Treasury Departments share jurisdiction under ERISA. The Treasury Department has primary jurisdiction over minimum participation, vesting and funding standards, and the Labor Department has primary jurisdiction over fiduciary responsibility and prohibited transaction provisions. Legislative proposals for a long-term solution to ERISA administration will be submitted to Congress by January 31, 1980.

Reporting and Disclosure Requirements: Pension and welfare benefit programs are required to disclose to plan participants and their beneficiaries and report to the Federal government information on their plan operations and financial condition. A plan booklet providing a reasonably comprehensive summary of important plan provisions, written so it is understandable by the average plan participant, must be provided to each participant and beneficiary. An updated booklet must be provided to each plan participant every five years if there have been amendments to the plan; otherwise a new booklet must be provided every 10 years. The plan administrator must make an annual report on the plan's financial condition to the Federal government. This report, which is filed with the Internal Revenue Service (IRS), serves as a combined report to the IRS, the Labor Department and the PBGC. At employment termination, pension plan participants must receive a statement indicating their vested benefits, and how and where they can be claimed. Also a report on vested terminated employees must be filed with the IRS. Steps have been taken to reduce ERISA paperwork, particularly for small businesses sponsoring employee benefit plans. For example, insured welfare plans with less than 100 participants are relieved of many of the reporting requirements.

Pension Limitations: Limitations are imposed on the benefits and contributions which may be provided to participants under

tax-qualified corporate pension and profit-sharing plans. Under a qualified defined benefit pension plan, the maximum annual pension is 100% of final average compensation or, if less, $75,000. The maximum may be payable as early as age 55. Under a defined contribution plan, limitations on contributions are generally expressed as an amount equal to 25% of compensation or, if less, $25,000. The maximum benefit or contribution is subject to annual adjustment for cost of living increments under Treasury regulations. (For calendar year 1979, the ERISA maximum was increased to $98,100 for defined benefit plans and $32,700 for defined contribution plans.)

Individual Incentives: Self-employed persons may now deduct up to $7,500 a year (formerly $2,500) on the tax returns or, if less, 15% of earned income for amounts placed in qualified retirement plans (H.R. 10 plans) on their own behalf.

Workers not covered by a retirement plan where they are employed may make tax-deferred contributions of 15% of earned income up to $1,500 per year to an individual retirement account or annuity (IRA). Beginning in 1977, if a nonemployed spouse is covered, the maximum IRA contribution limit increased to $1,750.

Under the Revenue Act of 1978, regardless of whether an employee participates in a retirement plan, employers are allowed to contribute the lesser of $7,500 or 15% of compensation to an employee IRA if the contributions are made under a definite, written allocation formula which is nondiscriminatory and if the employee's right to the contributions is 100% vested. Additionally, if the employer contributes less than $1,500—the maximum amount an employee may be permitted to contribute to his own IRA—the employee (to the extent he or she is eligible to participate in an IRA if not participating under the simplified pension plan program) may make up the difference between the employer's contribution and the maximum allowable employee contribution with his or her own deductible contribution.

Funds under H.R. 10 plans or individual retirement account plans may be placed with a life insurance company, a bank, a mutual fund or in certain special government bonds. There are penalties and an immediate tax liability if funds are withdrawn prematurely under these individual incentive programs.